CLASSIFICATION

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INFORMATION REPORT

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CONFIDENTIAL

COUNTRY China

SUBJECT

PLACE **ACQUIRED** DATE OF

INFO.

Fiscal Policies of the Chinese Communist

NO. OF PAGES

Government

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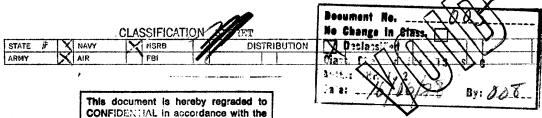
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SUPPLEMENT TO REPORT NO.

- Some of the major characteristics of the fiscal policies of the Chinese Communist Government have been demonstrated in recent developments. Com unists and other persons concerned with public finance administration state that the gove nment is now trying to meet all of its expenses from taxation. These expenses are very high since it is necessary to support large armed forces, and, at the same time, to rake heavy capital investments for the purpose of increasing industrial production. That the national economy may not be able to bear the burden of present taxation is a question causing some concern to government economists, particularly since they have no detailed studies or trustworthy estimates on which to base tax policies. They believe, however, that the tremendous amount of capital used for excessive speculation during 1948 and 1949 can be absorbed by present taxation without harm to the national economy.
- The economists believe that the countryside bore under the Nationalists a disproportionately large portion of the national tax burden. The new taxes are designed to fall heaviest on the cities, where there is more speculative capital. Officials in Canton have been worned by non-Communist economists in academic circles that Canton taxes are absorbing much of the working capital of Canton's commerce and industry, and that this circumstance is almost certain to result in a decrease in production. The officials admit the possibility, but state that they must have this revenue and that they will increase production by increasing industrial efficiency. Under the Nationalists, production in large industrial units in Canton was sometimes increased by the management's controlling the enterprise. These managers and technicians are now receiving high pay and bonuses. This policy increases production in larger units, but is i-practical in the case of the small, semi-handicraft industry, which almost monopolizes production in some industries. The Communist Government has yet to devise a policy to cope with the latter group.
- In three villages near Canton, grain taxes are assessed at the end of the harvest on a sliding scale. The total yield for each landholder is determined by assessors. For each member of the household, three (3) viculs of rice is deducted from this total. A further deduction is allowed for production costs, in which figure labor



letter of 13 October 1978 from the Director of Central Intelligence to the Archivist of the United States.

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is not included. A graduated tax, from four to twenty-five percent depending on the productivity of the land, is then assessed. The farmer is at liberty to dispose of his net surplus as he wishes. In general, the farmers regard this tax as light and equitable, especially since there have been no special assessments and levies during the past month. The farmers, past masters at the art of concealing production and adulterating grains paid as tax revenues, are successfully practicing their old tricks. This pattern appears to be common throughout Kwangtung so far as the grain tax is concerned.

- 4. In Canton proper there are three major taxes. While two of these are loans, they are regarded by the body politic as taxes. They are as follows:
  - (1) "Victory Loan," Sheng Li Chieh-k'uan (勝力 情景), for which Canton has a quota of Jen Min Piao \$1,500,000,000. This loan matures in three years, but it is regarded as a forced contribution and those paying it are not hopeful of recovering their investments. Subscribers receive no bonds or similar documents, but are given a receipt which does not bear a promise to repay.
  - (2) Public Victory Bonds, Sheng-li Kung Chui (房力公賃), which are to mature in five years and bear five percent interest. The Canton quota for these obligations is expected to be about JPP\$5,000,000,000. Subscriptions will be obligatory.
- 5. One of the means being used by the Chinese Communist Government to decrease expenses is to employ garrison troops in agriculture. This has been begun in the Canton area. For example, a company on guard duty near T<sup>3</sup> ien-ho Airfield is cultivating unused land in the vicinity. Permission to use the land was first asked of the owners. Where permission was not given, the land was not cultivated. A nominal rental is paid the owners and the production is exempt from taxation. The unit supplies its own needs for vegetables and pork and expects to provide its own rice within the next several months. This system is being followed by all troops in Kwangtung not actually engaged in or preparing for combat.

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